Republican Policy Committee
John Shadegg, Chairman
Established 1949

Growing Real Ownership for Workers (GROW) Account

Questions and Answers

Q: What will the GROW Act do?

A: Simply, it stops the federal government from spending the Social Security surplus.

Since Social Security was last "reformed" in 1983 by the Greenspan Commission, the Social Security system has run annual surpluses due to the tax and benefit changes enacted, in combination with economic growth. In every year but two since 1983, Congress has spent these surpluses on other government programs, masking the real deficit.

Q: How will the bill stop Congress from spending the Social Security surplus?

A: By dedicating the Social Security surplus to personal GROW Accounts, where it will initially (for the first three years) be invested in guaranteed, marketable Treasury bonds that individuals own and control—individual "lock boxes" consisting of real assets.

Q: How much money will be available in surpluses?

A: From 2006-2015 the estimated surplus, according to the preliminary estimates of the Social Security actuaries, is about $790 billion (nominal dollars). Put another way, each worker could save a total of roughly $5,000 in their GROW accounts, on average, over the ten year period.

Q: Will these accounts be inheritable?

A: Yes. If a worker dies, the account balance would go to his spouse. If the worker is unmarried, the account would go to the worker's children, grandchildren, or other heirs.

Q: Will this bill affect current retirees?

A: No. Accounts will be voluntary for all workers under 55 years of age. If workers do not want to participate they will have the option to opt-out of the accounts.

Q: How will the GROW Accounts work?

A: Social Security taxes will continue to flow to the Treasury and benefits to current retirees will be paid out. Then, any surpluses will be:

1. Credited to Social Security Trust Funds in the form of special-issue Treasury bonds, and
2. Invested in GROW Accounts owned by workers to fund their future Social Security benefits.

Q: Isn't that just double counting the same money?

A: No. The government's deficit and debt increase to reflect the new investment in GROW Accounts. Therefore there is no double counting. While the Social Security Trust Fund will be credited with the full surplus, the future liabilities will be reduced by the GROW Accounts.

Q: What will be the budget impact of the GROW Act?

A: GROW accounts will unmask the true budget deficit. The deficit will increase by the amount of the annual Social Security cash surplus. This merely reflects current levels of government spending in the absence of the government using the surplus to pay for programs other than Social Security.

Q: So what is the upside to the accounts?

A: This bill stops the government from continuing to spend Social Security surpluses. This bill creates GROW accounts that individuals own and control. It provides workers the opportunity to achieve higher rates of return on a portion of their Social Security contributions. And, this bill provides an important first step and down payment toward a comprehensive Social Security reform bill.

Q: Will this bill address the solvency of the current Social Security system?

A: This bill is not a full solvency package. However, it will improve the solvency of Social Security by approximately 2 years.

Q: But won't these GROW accounts expose American workers to risk of a stock market downturn?

A: No. For the first three years the GROW accounts will consist exclusively of guaranteed, marketable U.S. Treasury bonds. In January 2009, the board that administers the accounts will submit a plan to Congress allowing individuals to diversify their accounts into other assets such as Index Funds, Mutual Funds or other approved diversified funds similar to those available to all Federal employees through the Thrift Savings Plan (TSP). This plan will go into effect unless Congress enacts a joint resolution of disapproval.

Q: Will this bill include any tax increases?

A: No.

Q: Will this bill include any benefit cuts?

A: No.